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Argentina

Sugar

Annual Report

2005

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Report Highlights:
Argentine sugar production for Marketing Year (MY) 2005/06 will reach a record 2.05 million metric tons (MMT- raw value basis) as a result of good profitability in the sector that has invested heavily in improving efficiency at the farm and mill levels. However, static domestic consumption will force the industry to export over 500,000 MT of surplus to maintain a balanced local market and profitable prices.

Includes PSD Changes: Yes
Includes Trade Matrix: No
Unscheduled Report
Buenos Aires [AR1]
[AR]

SECTION I. SITUATION AND OUTLOOK

Argentine sugar production for MY2005/06 is forecast at a record 2.05 MMT (raw sugar basis). With stable domestic consumption, the industry projects to ship an excess of more than 500,000 MT of sugar to keep a balanced local market. Their main objective is to try to maintain a reasonable domestic price to maintain cane producers and mills profitability.

Leaded by the largest mills, which together account for more than 50 percent of total sugar output, the industry organized a scheme by which cane producers and mills have to commit a portion of their production to exports. From next year's crop (2006), roughly 30 percent of production will be directed to exports, which, although still profitable, returns lower prices than selling in the domestic market. Taking into account exports under the U.S. and Chilean quotas and to the world market, mills will retain the percentage for exports, which will be paid an average price of roughly US$175-180 per MT (based on current world prices) at the plant. Sugar sold in the domestic market is expected to fluctuate around US$250 per MT.

Post contacts estimate that excess sugar will range between 500-600,000 MT and about 50 percent of which has already been committed. As harvest will begin in late May and there is enough carry-in to supply the domestic demand for about two months, mills are planning to begin processing sugar for exports first. Traders state that over the next year approximately 90,000 MT of refined sugar will be shipped to Chile and about 30,000 MT will go mainly to Uruguay. The balance, approximately 400,000 MT, will be exported as raw sugar. Roughly 45,000 MT will go to the U.S. under the sugar quota and the rest will go to the world market (the main market in CY2004 was Russia). Raw sugar exports are expected to be totally shipped by December 2005. Traders forecast sugar FOB prices in 2005 will be about 10 percent higher than the previous year.

Although the weather has been on the dry side, the condition of the cane is good. Production is expected to be higher than last year, which suffered a more intense drought. Cane plantations have several advantages, as result of good profitability since the devaluation in 2002; first, the share of "young cane" is significant, as in the past three years the speed of renovation, especially in Tucuman, was important; next, plantations have been very well attended and managed in order to obtain high yields; and lastly, producers using new and improved cane varieties. Although there is some work done on GMO sugar cane varieties, no one predicts their use in the near future.

Most sources indicate that the increase in production will come from Tucuman province, which is expected to produce about 12 MMT of cane. Salta and Jujuy will produce a similar volume to last year, close to 6.1 MMT of cane. There are three very small mills in the northeastern part of the country which in total could produce 150,000 MT of cane.

There are 23 sugar mills operating in Argentina, of which 15 are in Tucuman, 3 in Jujuy, 2 in Salta and Santa Fe and one in Misiones. Tucuman in MY2005 produced 60 percent of the country's total sugar, while the northwestern provinces of Salta and Jujuy produced 39 percent. Most cane in Tucuman is in hands of independent growers, while in Salta and Jujuy the mills own most of it. The strong devaluation of 2002 revived the industry, which struggled with low profitability during the 1990's. The past three crops have been very good for both mills and farmers and are reflected in new investments at the farm and mill level. Cane was renovated in a greater proportion than in the 1990s in Tucuman, irrigation systems were improved, many new imported last generation harvesters were incorporated, new warehouses to stock sugar were built, and new machinery was purchased. Almost all mills invested primarily in improving processing efficiency, automating processes, and trying to reduce energy consumption. Production costs in 2005, compared to 2004 are estimated to increase at least 20 percent. Labor and gas are the two main costs which have increased most.

The second largest sugar mill in Argentina, and number one in Tucuman province, which had serious financial difficulties in the 1990s, is in the process of being purchased by a local chemical company owned by U.S. capital. Most sources indicate that the real interest in this purchase is to obtain cheap alcohol to satisfy increased demand for primarily ag chemicals for the local and export markets.

There are two mills, one in Salta and the other in Misiones, which produce organic sugar. Most of their production is exported. Based on a strong foreign demand, exports of certified organic sugar in MY2006 could increase at 12-14,000 MT. The main markets are the United States, Germany, Italy, and the U.K. Most clients are distributors which receive large bags, although there is a slow trend to start exporting in 1 kilo bags. The FOB price for organic sugar is about 50 percent higher than regular refined sugar. Although international demand is expected to continue to increase over the next 3-4 years, it is doubtful Argentina will increase production significantly.

Sugar domestic consumption is quite stable. Sugar producers are very concerned as consumption of artificial sweeteners is increasing year after year. Its lower price has encouraged many food and beverage manufacturers to shift from sugar to these cheaper ingredients. The Chamber of Sugar Producer is launching a campaign showing the benefits of sugar. Exports of sugar candy are growing steadily, as Argentina is the largest world exporter of candy. About 65,000 MT of sugar candy was exported in CY2004. Of the total domestic sugar consumption, 60 percent goes to the food and beverage industry and the balance is household use.

Argentina does not have a specific policy geared to the sugar sector, even though it is considered a “social” crop which provides work to several thousand people. The only measure that assists the sector is the sugar import law, passed a few years ago. Imported sugar pays a fixed tax plus a movable duty depending on current world prices. This measure is aimed at protecting the local industry from large inexpensive sugar imports from Brazil. The local sector accuses their neighbors (Brazil) of subsidizing their sugar production through their gasohol program.

SECTION II. STATISTICAL TABLES

PSD Table

Country	**Argentina**					
Commodity	**Sugar, Centrifugal**			(1000 MT)		
	2004	Revised	2005	Estimate	2006	Forecast
	USDA Official [	Estimate [I	DA Official [	Estimate [	A Official [	Estimate [I
Market Year Begin		06/2003		06/2004		06/2005
Beginning Stocks	76	76	236	250	126	245
Beet Sugar Production	0	0	0	0	0	0
Cane Sugar Production	1925	1925	1740	1815	0	2050
TOTAL Sugar Production	1925	1925	1740	1815	0	2050
Raw Imports	0	0	0	0	0	0
Refined Imp.(Raw Val)	10	10	5	15	0	10
TOTAL Imports	10	10	5	15	0	10
TOTAL SUPPLY	2011	2011	1981	2080	126	2305
Raw Exports	45	45	65	65	0	130
Refined Exp.(Raw Val)	170	156	220	160	0	400
TOTAL EXPORTS	215	201	285	225	0	530
Human Dom. Consumptio	1550	1550	1560	1600	0	1600
Other Disappearance	10	10	10	10	0	10
Total Disappearance	1560	1560	1570	1610	0	1610
Ending Stocks	236	250	126	245	0	165
TOTAL DISTRIBUTION	2011	2011	1981	2080	0	2305

PSD Table

Country **Argentina**

Commodity **Sugar Cane for Centrifugal** (1000 HA)(1000 MT)

	2004	Revised	2005	Estimate	2006	Forecast
	USDA Official [	Estimate [I	DA Official [	Estimate [I	DA Official [	Estimate [I
Market Year Begin		06/2003		06/2004		06/2005
Area Planted	270	275	0	280	0	280
Area Harvested	260	255	0	260	0	260
Production	15300	16960	0	16730	0	18100
TOTAL SUPPLY	15300	16960	0	16730	0	18100
Utilization for Sugar	15300	16960	0	16730	0	18100
Utilizatn for Alcohol	0	0	0	0	0	0
TOTAL UTILIZATION	15300	16960	0	16730	0	18100

Prices Table

Country Argentina

Commodity Sugar, Centrifugal

Prices in Pesos per uom Ton Ex Pla

Year	2003	2004	% Change
Jan	776	671	-14%
Feb	787	663	-16%
Mar	852	664	-22%
Apr	818	672	-18%
May	790	677	-14%
Jun	770	665	-14%
Jul	685	660	-4%
Aug	721	654	-9%
Sep	707	651	-8%
Oct	701	672	-4%
Nov	692	684	-1%
Dec	682	719	5%

Exchange Rate	2.92/1	Local Currency/US $
Date of Quote	4/8/2005	MM/DD/YYYY